

Message Text

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TO USDEL ASWAN IMMEDIATE

C O N F I D E N T I A L STATE 063988

LIMDIS TOSEC 855 FOR THE SECRETARY FROM ROGERS

FOLLOWING REPEAT BUENOS AIRES 1926 ACTION SECSTATE DATED

19 MAR 75

QUOTE

C O N F I D E N T I A L BUENOS AIRES 1926

LIMDIS

FOR ASSISTANT SECRETARY ROGERS FROM AMB HILL

E.O. 11652: GDS

TAGS: PFOR, ENRG, PEXP, AR, US

SUBJ: GOA REQUESTS GREATER US PARTICIPATION IN POWER PROJECTS

REF: BA A-264, AUG 19, 1974; STATE 061273

1. THIS CABLE PROVIDES BACKGROUND INFORMATION AND SUGGESTED INITIATIVES IN RESPONSE TO REQUEST FOR GREATER US PARTICIPATION IN THE TWO PARANA MEDIO HYDROELECTRIC PROJECTS MADE OF ASSISTANT SECRETARY ROGERS BY FONMIN VIGNES DURING THE FORMERS RECENT VISIT TO ARGENTINA. THE PROJECT IS A MAJOR PART OF THE GOA'S ENERGY DEVELOPMENT PLAN AND THEY HAVE INSCRIBED IN ON THE AGENDA FOR THE FOREIGN MINISTRY-EMBASSY WORKING GROUP CONSULTATIONS ON SECRETARY KISSINGERS VISIT TO ARGENTINA (SEE SEPTL).

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2. THE EMBASSY BELIEVES THAT THE GOA'S INTEREST IN GREATER US PARTICIPATION IN THESE PROJECTS IS BASED ON SEVERAL FACTORS:

A) THE ARGENTINE GOVERNMENT WILL NEED EXTERNAL DOLLAR FINANCING TO EXECUTE THESE PROJECTS AS DOMESTIC SOURCES OF FINANCING OF THE MAGNITUDE REQUIRED ARE SIMPLY NOT AVAILABLE. THE TWO DAMS WILL COST IN EXCESS OF US \$4 BILLION AND HAVE A POTENTIAL VALUE OF US \$3 BILLION FOR THE FIRMS INVOLVED. THE GOA IS UNDOUBTEDLY INTERESTED NOT ONLY IN THE TYPE OF SUPPLIER CREDITS WHICH THE EXPORT-IMPORT BANK USUALLY PROVIDES, BUT IN USG SUPPORT OF ITS LOAN REQUESTS TO THE IDB AND IBRD: AND

B) THE GOA IS ALSO INTERESTED IN COUNTERBALANCING THE EASTERN BLOC'S GROWING PARTICIPATION IN THEIR POWER DEVELOPMENT PLAN. FOR ALMOST A YEAR AND A HALF, UNDER ECON MIN JOSE GELBARD, BOTH THE SOVIET UNION AND CZECHOSLOVAKIA ACCOMPLISHED A MAJOR MARKET PENETRATION IN THIS SECTOR BY WINNING THE EQUIPMENT CONTRACT FOR THE SALTO GRANDE PROJECT ON THE URUGUAY RIVER AND BY BEING AWARDED DIRECTLY APPROXIMATELY TEN OTHER SIZEABLE PROJECT CONTRACTS. THE SHIFT TO THE RIGHT WHICH HAS OCCURRED SINCE GELBARD'S FALL MAKES SUCH LARGE SCALE DEALINGS WITH EASTERN BLOC COUNTRIES AN POLITICAL EMBARRASSMENT FOR THE GOA, AS WELL AS A SECURITY CONCERN.

3. PRIOR TO FOREIGN MINISTERS RAISING ISSUE WITH ASSISTANT SECRETARY ROGERS, THE EMBASSY HAD INDICATIONS THAT ECONOMY MINISTER GOMEZ MORALES AND HIS ECONOMIC TEAM WERE INTERESTED IN REORIENTING THE GOA'S HYDROPOWER SECTOR DEVELOPMENT AWAY FROM DEPENDENCE ON EASTERN BLOC COUNTRIES. THE ARGENTINE EMBASSY IN WASHINGTON RECENTLY APPROACHED THE DEPT OF COMMERCE AND MADE A SUGGESTION SIMILAR TO ONE VIGNES PROPOSED TO ROGERS. THE EMBASSY HAS ALSO BEEN APPROACHED BY THE SECRETARIAT OF ENERGY REQUESTING A CONTINUANCE OF THE DISCUSSIONS ON ENERGY MATTERS BEGUN BY GOMEZ MORALES ON HIS JANUARY 1975 VISIT TO THE US. CLEARLY, THE GOA HAS GIVEN CONSIDERABLE THOUGHT TO THIS PROBLEM AND HAS APPARENTLY DECIDED TO PEG ITS HOPES ON US FIRMS AND FINANCING AND ON VISIT OF SECRETARY KISSINGER.

4. COMMENT: THE GOA'S DECISION TO APPROACH THE USG TO INSURE GREATER US PARTICIPATION IN THE PARANA MEDIO DAMS PROJECTS PRESENTS US WITH AN UNEQUALLED OPPORTUNITY TO REAP BOTH POLITICAL AND ECONOMIC BENEFITS IN ARGENTINA. EMBASSY BELIEVES

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THAT GOA DECISION IN THIS MATTER IS PRIMARILY BASED ON ECONOMIC FACTS I.E. THE NEED FOR FINANCIAL RESOURCES. HOWEVER, IMPORTANCE OF POLITICAL FACTOR SHOULD NOT BE DISCOUNTED. AS THE GOA HAS BEEN STEADILY MOVING TOWARD THE RIGHT SINCE MRS. PERON ASSUMED THE PRESIDENCY FROM HER HUSBAND, THE INTIMATE ECONOMIC RELATIONS ESTABLISHED WITH THE EASTERN BLOC HAVE BEEN AN ANOMALY IN AN EVER GROWING ANTI-MARXIST TREND. IN ADDITION EVER IMPROVING RELATIONS WITH THE US

HAVE MADE US AN ACCEPTABLE ALTERNATIVE TO EASTERN BLOC. THIS IS NOT TO IMPLY THAT THE GOA VIEWS THE MATTER IN SIMPLISTIC COLD WAR TERMS. THE SOVIETS ARE ALREADY DEEPLY INVOLVED IN A NUMBER OF PROJECTS, THE ARGENTINES MAY ENVISAGE SOME KIND OF JOINT US-SOVIET PARTICIPATION. THE POINT IS, HOWEVER, THAT THE ARGENTINES WOULD BE MORE COMFORTABLE WITH A GREATLY INCREASED US ROLE TO BALANCE THAT OF THE SOCIALIST COUNTRIES. WE BELIEVE TOO THAT THE GOA HAS FOUND THAT THEY HAVE MUCH TO GAIN BOTH IN POLITICAL AND ECONOMIC TERMS FROM ESTABLISHING COOPERATIVE RELATIONSHIPS WITH THE US. A POLITICAL COROLLARY TO THE ATTITUDE THE GOA IS NOW EXPRESSING TOWARD THE PARANA PROJECTS CAN BE FOUND IN THEIR EFFORTS TO PREVENT US-LATIN CONFRONTATIONS AND HOLD THE NEW DIALOGUE ON COURSE.

5. RECOMMENDATIONS: A) WITH THE DEPARTMENTS APPROVAL, EMBASSY WILL INDICATE STRONG US INTEREST IN THIS GOA INITIATIVE AT START OF WORKING GROUP MEETINGS DUE TO TAKE PLACE THIS WEEK IN BUENOS AIRES, WHILE ATTEMPTING TO DEFINE MORE PRECISELY WHAT GOA HAS IN MIND. WE PROPOSE ASKING IN THESE MEETINGS WHETHER FORMATION OF A CONSORTIUM OF COMMERCIAL BANK, ENGINEERING, CONSTRUCTION AND EQUIPMENT SUPPLIERS TO BUILD ONE OR MORE OF THESE DAMS WOULD BE OF INTEREST TO THE ARGENTINE AUTHORITIES. WE ARE CONFIDENT US FIRMS, PARTICULARLY THOSE ALREADY ACTIVE IN ARGENTINA, WILL BE EAGER TO PARTICIPATE.

B) FOLLOWING THESE INITIAL CONSULTATIONS AND ASSUMING THE GOA RESPONDS FAVORABLY TO THE CONSORTIUM APPROACH, EMBASSY RECOMMENDS US SUPPLIERS BE APPROACHED ON AN URGENT AND CONFIDENTIAL BASIS BY USDOC IN THE US, AND LOCALLY BY THE EMBASSY, TO OBTAIN EXPRESSION OF INTEREST IN PRINCIPLE. (EMBASSY WOULD MAKE DETAILED RECOMMENDATIONS ON COMPOSITION OF CONSORTIUM TO DEPT BY SEPTEL).

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C) DEPARTMENT MUST THEN DETERMINE IN DISCUSSIONS WITH EXIMBANK, ETC., THE TERMS THEY COULD EXTEND FOR PARANA MEDIO PROJECTS. (FYI: THE SOVIETS ARE CURRENTLY OFFERING 4 1/2 TO 5 PERCENT INTEREST RATES WITH AMORTIZATION PARTLY IN KIND. WHILE US FIRMS OFFER ADVANTAGES IN TECHNOLOGY AND PROVEN PERFORMANCE WHICH PARTLY OFFSET SOVIET CONCESSIONARY TERMS, GOA WOULD ON BOTH POLITICAL AND ECONOMIC GROUNDS BE HARD PUT TO REJECT SUCH A RUSSIAN OFFER WHILE WE CANNOT OFFER TERMS COMPARABLE TO SOVIET OFFER, WE MUST RECOGNIZE THAT OUR FINANCIAL PACKAGE MUST AT LEAST BE AS GENEROUS AS PRESENT EXIM PRACTICES ALLOW IF WE ARE TO TAKE ADVANTAGE OF THIS OPPORTUNITY. END FYI).

D) ASSUMING SATISFACTORY RESPONSES TO INITIATIVES ABOVE AND DISCUSSIONS HERE REVEAL NO UNREASONABLE QUID PRO QUO ON PART OF GOA, WE WOULD THEN STRONGLY RECOMMEND THAT SECRE-

TARY KISSINGER COME TO ARGENTINA PREPARED TO INFORM FONMIN
VIGNES THAT THE USG WILL SUPPORT GOA EFFORTS TO SECURE US
AND/OR IBRD OR IDB FINANCING FOR THE PARANA PROJECTS, AND
WILL FURTHER URGE US FIRMS TO ACTIVELY EXPLORE COLLABORA-
TION WITH ARGENTINA IN THE ENERGY SECTOR.

6. DEPARTMENT MAY WISH TO DRAW ON REPAIR/OR TECHNICAL
DETAILS OF PARANA MEDIO PROJECTS.

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